Sense 65

A Marketing/Communications
and Design Publication of
Lippincott & Margulies

Conglomerates: Phase III

Can You Figure Out Which Company is a Conglomerate?

Company A
P/E Ratio: 6

Areas of Corporate Involvement:

Electronics
EDP
Aerospace
Aircraft
Communications
Military
Chemicals
Marine
Education
Pharmaceutical
Meat Packing
Grocery Products
Airlines
Steel
Sporting Goods
Railroads
Mining

Company B
P/E Ratio: 32

Areas of Corporate Involvement:

Electronics
EDP
Aerospace
Aircraft
Communications
Military
Chemicals
Marine
Education
Medical
Appliances
Housewares
Transportation
Public Safety
Broadcasting
Construction
Power Generation

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Note: All price-earnings ratios mentioned,
taken from Standard & Poor's Stock Guide
published Year End, 1969.

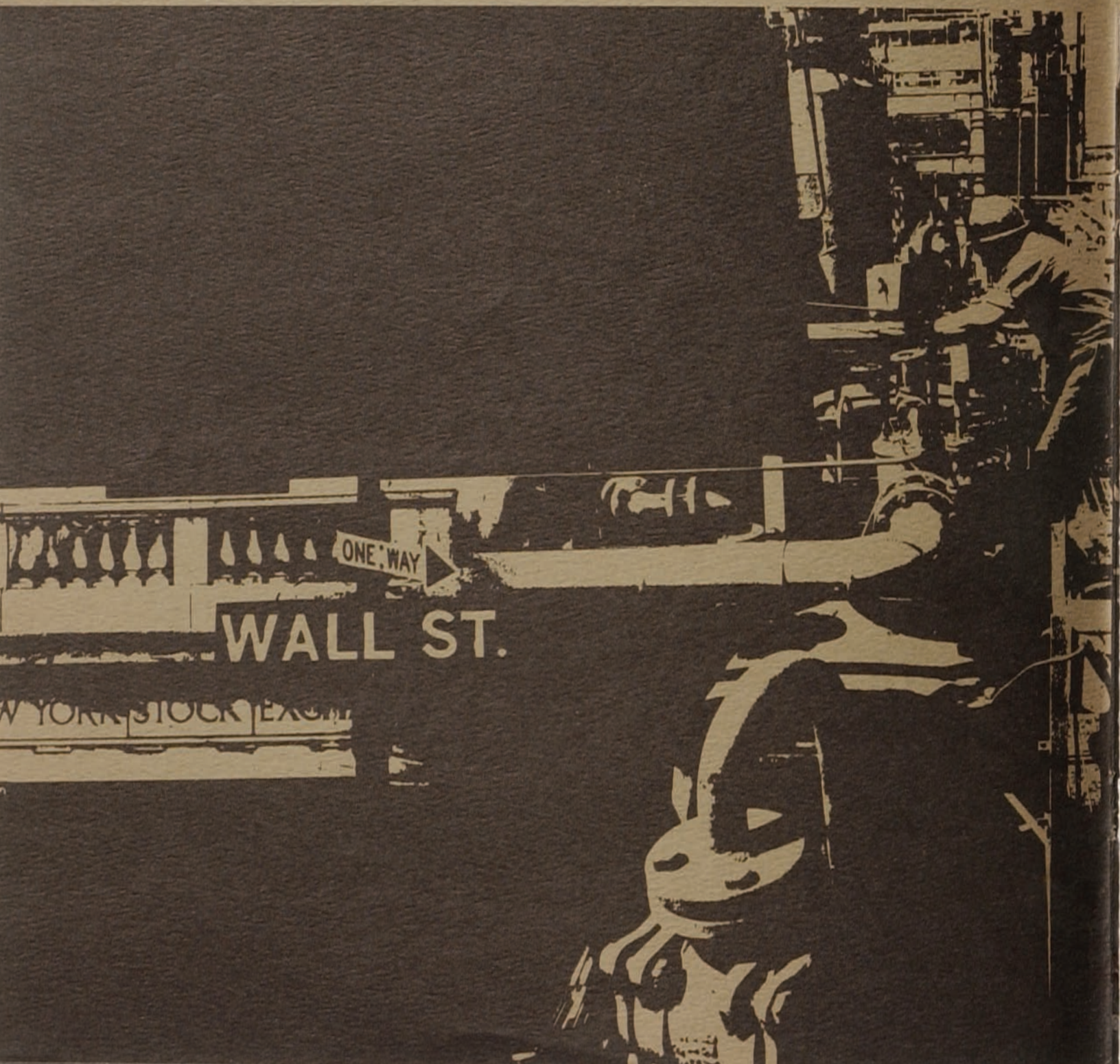
Which Company is a Conglomerate?

One of the major problems confronting conglomerates today can be best illustrated by the two companies shown on the cover. Company A has a price-earnings ratio of only 6. Company B, a price-earnings ratio of 32. Both are highly diversified concerns. Other than that there is no immediate significance until they are identified:

Company A = Ling-Temco-Vought, Inc.
Company B = General Electric Company

Ling-Temco-Vought is one of the largest and most highly publicized conglomerates on the business scene. General Electric, on the other hand, although highly diversified, is not viewed by the public as a conglomerate. And the troubles currently confronting those companies looked upon as conglomerates are best illustrated by the present difference in price-earnings ratios of the two firms: GE's is more than five times higher than LTV's. By no means was this always the case.

Why are some corporations burdened with the label conglomerate while many other firms are looked upon merely as highly diversified enterprises? This issue of *Sense* analyzes the problem and points out the severe communications gap confronting conglomerates, as well as its significance, as they now stand on the threshold of Phase III of their evolution.


ONE WAY
WALL ST.

How Now, Conglomerate?

From a Phase I running start in the late 1950's, the conglomerate fired the imagination of the investment world, both individual and institutional. Daring and innovative, it moved like a scythe through the business community—merging, acquiring, buying outright—giving, if nothing else, the impression of a March Hare, "...late, late, for a very important date." Its stock spiraled as investors bought the promise of tomorrow, and P/E ratios soared to stratospheric levels.

The honeymoon lasted approximately 10 years.

Phase II for these aggressive, multi-faceted companies started during the latter part of 1968 when declining profits for some, government intervention for others, and tight money combined to trigger the crisis which now threatens *all* conglomerates. Consequently, the atmosphere of enthusiastic approval that once surrounded the conglomerate has become polluted by fear, mistrust and suspicion. And the well of discontent has yet to reach the leveling off point.

Does the torrent of criticism and adverse investor reaction portend the death knell for conglomerates? Hardly. Some dangerously leveraged wheeler-dealers may fall by the wayside. But at the same time, it is a fact that many companies of the conglomerate type are well managed, well financed and will unquestionably survive the tempest surrounding them. How *well* they survive, and how great their prospects for future growth, will depend on the lesson learned from this current confrontation.

The Plus Side of the Equation

Amid all the furor, what is sometimes forgotten are the pluses the conglomerate form of corporate structure has introduced to the business community. For one, they have helped mold a new breed of executive—smart, aggressive, imbued with the principles of systems analysis and the belief that corporate assets are a viable mechanism to achieve greater growth. In fact, the rise of the conglomerate has been accompanied by highly innovative uses of capital accumulation (not to be confused with issuance of unsecured debt) to achieve greater efficiency and productivity. Some of the more stable financing techniques are already being adopted by a number of nonconglomerate companies.

Additionally, the emergence of the acquisition-minded conglomerate has proved a shot in the arm (albeit an unwelcome one) for many sectors of the economy, especially oligarchical industries. Like a stag among wolves, to survive one must be lean and quick. The casual observer has only to look at the ripple, soon to be a wave, of corporate activity within a growing number of banks and insurance companies to understand what the fight for survival is all about. Although not fully the conglomerate's creation, the basic motivation of innovate or die has been supplied.

"Sticks and stones may break my bones..."

Many corporations perceived as conglomerates dislike the label. But what a company calls itself is of little consequence compared to a vastly more important consideration—*how is it viewed by the public?* Because here rests the final decision. And rightly or not, if the conglomerate mantle is dropped on a company by the combined forces of press, financial community, government, customers and shareholders, that's where it will remain, at least for a considerable period of time.

To demonstrate that the GE versus LTV example listed on the cover is not unique, look at the following page comparing a number of well-known conglomerates with equally well-known, diversified companies that have escaped the stigma. This is not to imply that all conglomerate organizations have suffered badly in terms of public recognition (most have), or that all diversified, nonconglomerate types are doing well (a fair number are not). But, generally speaking, a pattern of public reaction is beginning to emerge, and its significance to those companies stamped conglomerate is vital.

Ogden Corporation

P/E Ratio: 10

Areas of Corporate Involvement:

Metals
Food
Marine
Architecture
Real Estate
Transportation Systems
Industrial Waste Systems
Municipal Water Systems
Aviation
Technological Laboratories
Freight Car Manufacturing

Miles Laboratories, Incorporated

P/E Ratio: 26

Areas of Corporate Involvement:

Pharmaceuticals
Chemicals
Medical Instruments
Proprietary Medicines
Cosmetics
Toiletries
Hospital Products
Household Products
Research Products
Agriculture

Gulf & Western Industries, Inc.

P/E Ratio: 8

Areas of Corporate Involvement:

Aerospace
Metals
Military
Broadcasting
Insurance
Motion Pictures
Financial Services
Paper Products
Agricultural Products
Marine
Distribution Systems
Publishing
Records and Music
Tobacco
Real Estate
Parking Systems
Traffic Control Systems

3M Company

P/E Ratio: 34

Areas of Corporate Involvement:

Chemicals
Paper Products
Printing Products
Microfilm
Duplicating
Medical
Audio-Visual
Education
EDP Components
Film & Allied Products
Bldg. Service & Cleaning Prod.
Industrial Mineral Products
Industrial & Retail Tape
Adhesives, Coatings, Sealers
Abrasives
Gift Wrapping Products
Insulation Products

Avco Corporation

P/E Ratio: 7

Areas of Corporate Involvement:

Aerospace
Electronics
Military
Metals
Farm Equipment
Broadcasting
Insurance
Financial Services
Motion Pictures
Education
Credit Card
Appliances
Engines
EDP Services

Teledyne, Incorporated

P/E Ratio: 20

Areas of Corporate Involvement:

Aerospace
Electronics
Military
EDP
Oil
Communication
Research Service
Marine
Metals
Medical
Atomic Fuel
Insurance
Appliances

Colt Industries

P/E Ratio: 7

Areas of Corporate Involvement:

Metals
Electronics
Automotive OEM
Aerospace
Industrial Machinery
Military
Tubing
Control Systems
Marine

National Cash Register Company

P/E Ratio: 38

Areas of Corporate Involvement:

Business Machines
Information Systems
Business Forms & Supplies
Paper Products
Microfilm
EDP
Leasing
Aerospace
Military

Note: All price-earnings ratios mentioned, taken from Standard & Poor's Stock Guide published Year End, 1969.

The Conglomerate Apart

What elements seem to differentiate the conglomerate form of corporate structure from others, especially those of diversified corporations? In an article entitled, "What Future for the Conglomerate?", appearing in *Harvard Business Review*, author Daniel T. Carroll mentions several:

1. The conglomerate gives far greater priority to acquisitions than to matters of internal administration.

2. The conglomerate has less conservative standards for debt and equity than other business.

3. The conglomerate regularly permits opportunism to override its announced plans for diversification and growth.

4. The conglomerate is ordinarily dominated by the personality of a single individual.

5. The conglomerate practices decentralization to a greater degree than most companies.

6. The conglomerate stresses a leanness in its corporate staff.

All valid points, each in varying degrees contributing to a level of differentiation. Mr. Carroll goes on to briefly mention one additional point, possibly without being aware of its vital significance.

7. The conglomerate has a vague or imprecise image, largely because it participates not in just one industry, but in a variety of industries.

Carroll is quite correct in saying conglomerates have a hazy image in the minds of the public. But reasoning that it is due to an involvement in a multitude of industries will simply not hold water. There are a number of nonconglomerate corporations, each engaged in diverse areas of industry, that have exceptionally strong and positive images. To name only a few: RCA, DuPont, Sears Roebuck, Eastman Kodak, Pepsico, Westinghouse, Kaiser Industries, Reynolds Metals, Control Data, 3M Corp.

If these multi-market corporations can project a powerful and precise identity, why then do conglomerates have a diffused image problem?

A Reason to Be

In an attempt to answer this question, it is first necessary to examine the basic motivation for a corporation's existence.

Traditionally, under our capitalistic system, one of a corporation's primary reasons for being is *profitability*. Conglomerates certainly strive to fulfill this definition. In fact, they have a substantially greater obligation in this area than the average company. Yet, something is still lacking in the conglomerate makeup that separates it communicatively from the rest of the corporate pack.

This missing element can be best described as a *sense of purpose.*

Above and beyond making a profit, sense of purpose directly relates to the public's degree of involvement with a corporation. And, almost always, it stems from the products (and/or services) that a company produces.

To look at it simply, before a profit can be achieved, a product or service that fulfills a need must be created and marketed. This product or service is a tangible thing, one to which an individual can relate, whether he be a user or not. From this, a basic relationship is established which culminates in consumer/product involvement and, ultimately, consumer/company involvement.

Sense of purpose, then, might be defined as *fulfillment of need.*

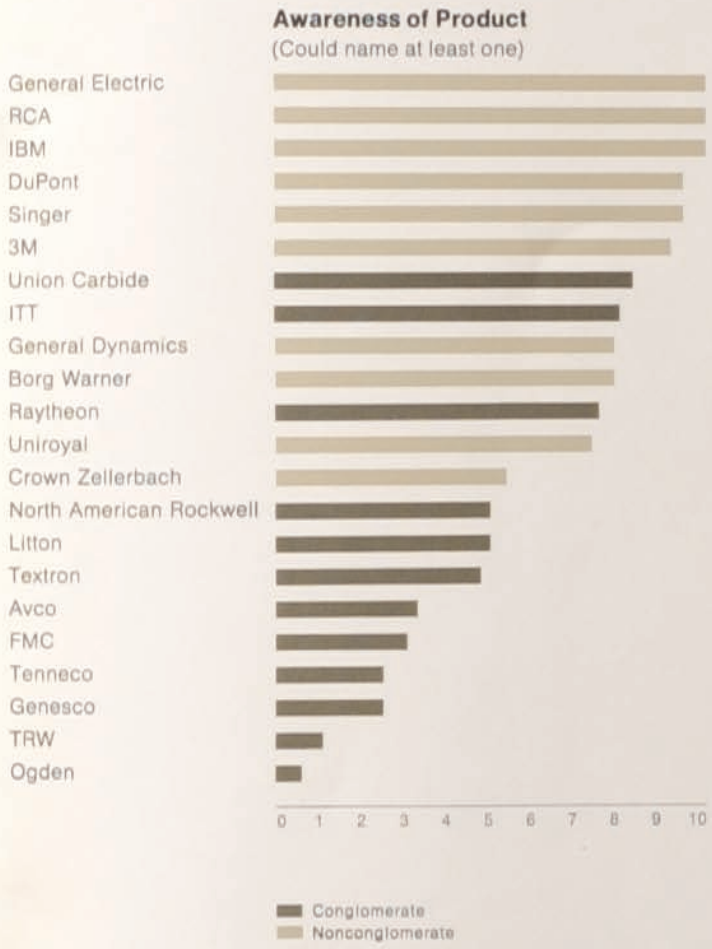
Obviously, a company engaged in a single industry should have less of a problem communicating its sense of purpose than a multi-industrial complex. But companies like Eastman Kodak, 3M, Pepsico, for all their varied marketing activities, are still able to transmit a keen sense of purpose because they fulfill a need or, more accurately, a variety of needs. This is true of a number of diversified nonconglomerate companies.

The conglomerate, however, has created an almost unique problem for itself. While becoming engaged in multiple industries, *it has neglected to create a product involvement relationship with the consumer.* As a consequence, the basic attribute of need-fulfillment has also been largely negated, thereby further obscuring corporate identity. Thus, as looked upon by many people, the conglomerate's primary, indeed *only*, motivation is to make a profit. It fulfills no other basic function. And to make this profit, it *manipulates companies*, another factor which does not add to the attractiveness of its image.

Yet the conglomerate does create products, does fulfill a variety of needs. Nonetheless, its corporate remoteness from this basic function, its seeming preoccupation with the intricacies of finance and power plays, combine to obliterate its sense of purpose, thus creating a hazy, indefinable and not so enviable image.

Within conglomerates, it is not unusual to find subsidiaries, even divisions, that demonstrate a sense of purpose not shared by the parent. For example, subsidiaries of LTV (even though some are in the process of being spun-off) such as Braniff Airways, Wilson Sporting Goods, Wilson Pharmaceutical & Chemicals, even Jones & Laughlin Steel, radiate substantially sharper identities because of a more recognizable sense of purpose. Perhaps this is why their price-earnings ratios are two to three times higher than LTV's. And how much higher might they be if removed from the shadow of the parent conglomerate?

Know Me, Know My Product



The conglomerate's problem of weak product involvement which negates its sense of purpose is graphically demonstrated in a study sponsored by BBD&O entitled, "How Public Attitudes Influence Corporate Profits." This research, completed in 1969, measures the public's product awareness of both conglomerate and nonconglomerate companies. Respondents *with income of more than $10,000* were asked to name any product or service of specific companies.

As you can see from the chart on the left, ITT led all conglomerates with approximately 83% of those surveyed able to identify a product or service. From there the level of awareness fell off rapidly all the way down to Ogden and its 6%. Nonconglomerate firms, on the other hand, scored quite high with RCA, General Electric and IBM registering a perfect 100% product awareness.

Averaging out, the product-awareness level of the nonconglomerate companies shown is more than double that of the conglomerates. Nonconglomerates: 90%. Conglomerates: 44%.

This low level of *any* product awareness among conglomerates is a serious hazard for any firm trying to project a sense of purpose. For without product awareness, there certainly can be no favorable consumer/company involvement.

Granted, a number of nonconglomerates have had quite a few years to establish substantial product and corporate identities. (Although such companies as Xerox, Control Data, 3M and Polaroid powered their way to singular identities in a relatively short period of time.) Still, conglomerates, by the very nature of their makeup, cannot afford the luxury of time to help establish a sense of purpose. And even time itself will not accomplish this if their communications stance remains unchanged.

Standing Exposed in the Cannon's Mouth

Being wedded to continuous profitability as a primary motivation for existence, the conglomerate finds itself standing exposed in the cannon's mouth. Because the moment it is not profitable, a lighted taper is handed to the investment community. Witness last year's explosion.

But going beyond the profitability factor, the conglomerate is committed to corporate growth at an almost staggering rate. The upward spiral must be constant, with no hesitation.

But business setbacks are inevitable, and not to prepare for them is unrealistic at best. This is where a company's sense of purpose can come into play, acting as a cushion to soften the blow of decreased profits, government intervention, stagnant economic conditions, a crippling strike, the death of a chief executive officer, even scandal, such as that faced by General Electric and Westinghouse several years ago.

Further, there is another dramatic change taking place within our society today that is creating an atmosphere of opinion which the conglomerate, as well as many other companies, might well examine closely. And that is, the emergence of an increased social consciousness which may foster an ethic stating that to *only* make a profit is not sufficient justification for a company's existence. To what ends, if any, this will be carried out remains to be seen, but to ignore its implications would be foolhardy. And if such a conflict should arise, it goes without saying that those corporations with a demonstrated sense of purpose will find the going considerably easier.

Phase III Coming Up

The conglomerate, then, stands on the threshold of Phase III of its development. There appears to be three courses open to it. First, a complete disintegration, which will happen to those few so dangerously leveraged there can be no pulling back.

Next, there will be a number of firms that will begin to concentrate on internal growth, divesting themselves of many areas of extraneous involvement. In time, these concerns will assume the mantle of a more normal corporate structure, and eventually be indistinguishable from the average diversified company.

And finally, there will be the conglomerates that continue as conglomerates, possibly modified somewhat in their form of operations, but still entrepreneurial in performance as well as in spirit. These survivors, and there may be a fair number, will be those that are currently well managed, well financed and flexible enough to alter, or in some cases drastically change, their communicative stances.

Because without a recognizable sense of purpose, the conglomerate is destined to wander in a limbo of public indifference, or worse, active hostility. And today's conglomerate is no stranger to hostility and its consequences.

Those who believe that advertising, of and by itself, will solve the problem had better think again. The average conglomerate is no stranger to advertising, yet it has reaped few rewards from its investments in the last year or two. In fact, in many cases, conglomerate advertising has helped contribute to the general confusion and haziness surrounding it.

No, the problem goes much deeper than that. It stems from an internal confusion over priorities which must first be resolved. Building a keen sense of purpose requires the involvement of all segments of a company—subsidiaries, affiliates, divisions, brands, products, the parent company itself.

Each element must relate meaningfully to the others, to the whole, and ultimately to the public. Further, serious consideration must be given to *all* the ways a company communicates—its promotion, packaging, public relations, architecture, signage, letterheads, rolling stock, interiors, financial communications, product identification, business cards, forms, dealerships, uniforms, to mention a few. These, in addition to advertising. Not only must it be determined *what* these communicators are saying, but *how*, *why* and *when*, both individually and in conjunction with one another.

Admittedly, this is a complex task, but an absolutely essential one if a true sense of purpose is to be achieved.

And it is not only the conglomerate that must take heed, but also those diversified nonconglomerate firms that face the danger of one day being branded with the stigma. Because as a company expands, moves into new areas of endeavor, it risks losing its former identity and the vital public involvement that goes with it.

The conglomerate today stands at a crossroad. Its impact on business will be felt for many years to come. But whether or not it is to continue as a viable corporate entity in its present form will depend to a great degree upon the course it follows in the immediate future.

For if there is one thing that has been learned in the last quarter century, it is that meaningful change is essential to business success. And just as the conglomerate, by its very existence, has caused considerable change in the business community, so too must it now change and adapt to its surrounding hostile environment.

How Now, Conglomerate?

Readers of this issue will find the following of special interest:

Sense Publications:

Design Sense 55/Growth And Your Price-Earnings Ratio
What's so important about the P/E ratio? Is it an accurate indicator of the financial world's assessment of your company? The ploys and counterploys of the new corporate game: acquire or be acquired. Merger mathematics: how to buy a dollar of earnings with less than a dollar of earnings. Comments from four Wall Street experts on the relationship of growth to the P/E ratio. Special test of your own company's attitude toward growth.

Sense 59/The Vital Role Of Communications In Mergers & Acquisitions
What's the most critical period in a merger or acquisition? Before? During? After? A discussion of how all three call for every bit of expertise that management can command. The often overlooked factor of corporate communications, its opportunities and problems. Detailed examination of each stage of corporate amalgamation, with useful checklists on what to do.

Sense 62/Enter Superbrand: A Unique Marketing Concept
How to create a brand identity that substantially heightens corporate flexibility and communications efficiency. The Pathmark story, a new look in retailing that allows Supermarkets General Corporation to diversify into profitable new areas of the retailing business without stultifying identification or communications problems.

Sense 63/Fulfillment: Executing A Corporate Identity Plan
How a corporate identity plan is carried out is as vital to the achievement of a company's marketing goals as the creation of the program itself. A handy and valuable reference to the mechanics of implementation that tells who is responsible for the program and how it should be presented to the public. Procedures are outlined for establishing priorities, maintaining internal communications and continuing quality control. Must reading for all those considering an identity plan or currently in the midst of one.

Case History Brochures:

Belk Stores: Fashion Flair Down South
How a distinguished "family" of 400-plus department stores built on a system of partnership participation met the marketing challenge of national merchandisers. The solution: a new identity system that enabled the company to increase the efficiency of all its communications while generating the group cohesiveness needed to achieve future growth.

United Virginia Bankshares: A New Look In Banking
How a major bank holding company brought unity to its member banks. United Virginia Bankshares, with 10 affiliate banks and 95 branches throughout the state of Virginia, was faced with a major communications problem: it had to effectively communicate the statewide nature and total scope of its banking activities without sacrificing the individual identities and reputations of its member banks.

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Lippincott & Margulies, Inc.
277 Park Avenue
New York, New York 10017

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Lippincott & Margulies Ltd.
2200 Yonge Street
Toronto, Canada

Sense Magazine
Lippincott & Margulies Ltd.
53 Grosvenor Street
London, W. 1, England

Lippincott & Margulies, Inc.
and Lippincott & Margulies Ltd.
U.S.A.: 277 Park Avenue, New York, N.Y. 10017
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